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How to reduce rents,
practical methods

New York City

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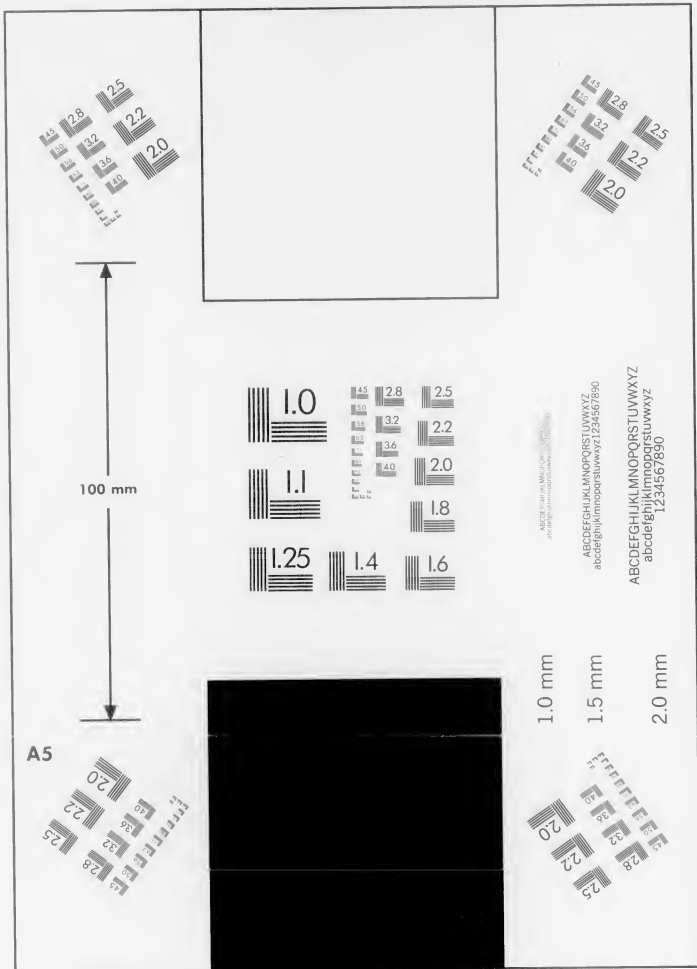
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HOW TO REDUCE RENTS

Practical Methods

Part I

By
"INVALID"

FIRST EDITION

Published by
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JHT

MAR 5 1953

SOLUTIONS OF THE HOUSING PROBLEM

What Every Builder Knows

Starting the New Year Right

For the purpose of the writer's convenience, and convenience only, we select for cost analysis, a building which is a five and one-half story improvement common to the Bronx. It is built on a plot 75x100 feet, and contains twenty-four rooms on a floor, divided into seven suites, four of three rooms, and three of four rooms; all apartments are, of course, provided with bath rooms. The appointments are first-class in every particular, lacking only an elevator.

Now, this plan has just about reached its highest development. It has taken many years to develop, and is common property. Of course, there are variants, but they all differ in a slight degree. None of the practicing architects have much on each other in that respect. Since excavation is very expensive, this building begins at grade, and the entrance floor is reached from a high outside stoop in the court facing the street. In effect, it is practically a six-story building. The basement contains about ten or twelve rentable rooms, besides an apartment for the janitor.

Altogether, the building houses about 38 families in 130 rooms, exclusive of the janitor and his apartment, which do not enter into the calculations herein.

We are now ready for the computations on the following pages:

TABLE 1.

Building Cost of Speculator's 75-Footer

(1) Lot area, 75x100	7,500 sq. ft.
(2) Percentage of lot occupied by the building equals 7,500 multiplied by 70 per cent, or	5,250 sq. ft.
(3) Multiply (2) by height of building..	60 ft.
(4) Giving as cubic contents.....	315,000 cu. ft.
(5) Allow for cost of construction per cu. ft.	\$.35
(6) Making a building cost of about.....	\$105,000.00
(7) Allow for land (variable value), say....	20,000.00
(8) This makes actual cost up to here.....	\$125,000.00
Repeat (8)	\$125,000.00
(9) Allow for builder's acting as general contractor	10,000.00
(10) Allow for reasonable profit for initiative	15,000.00
(11) Making a reasonable assessable value of	\$150,000.00
(12) On this value he is entitled to a mortgage of.....	60 per cent
(13) Or a first mortgage of.....	\$ 90,000.00
(14) Deducting (13) from (8) we have as builder's actual cash investment....	\$ 35,000.00

TABLE 2

Carrying Expenses of Speculator's 75-Footer

His expenses are as follows:

(1) Interest on first mortgage of \$90,000 at 6 per cent	\$5,400
(2) Water taxes	500
(3) Janitor	1,200
(4) Coal	2,000
(5) Insurance	1,000
(6) Lighting	300
(7) Miscellaneous (house supplies, repairs, etc.)	1,600
(8) Total carrying expense.....	\$12,000

The reader, if he be a builder's expert, may at this point begin to fume and fret, and talk about a lot of items left out, like depreciation, amortization, redecoration, loss of rental by vacancies, cost of rent collecting, legal expenses, etc. Land taxes are exempted at present by the kindness of the city. All these factors and others are well known to this author, who pretends also to be an expert, and will be accounted for later. Please be patient. One cannot mouthe everything in one breath, no matter how rapidly one talks. Let us continue.

Now as to income. In the Bronx, at the present time, the rent per room for new accommodations lies more nearly \$25 per room than \$20. The builder likes to figure conservatively, but enjoys charging extravagantly. In other words, he plans on the basis of the least profitable rental that will make him engage in the venture, and then, when he starts to rent, he charges all that the traffic will bear, and he's not bashful. He gets "his'n" while the getting is good. And he's a wise bird, for no one knows when it's going to hit him in the "medulla oblongata," and he's taking no chances. He's for a clean getaway.

Well, neither of us has the time to investigate ad nauseam. On Washington Heights it's \$25 per room flat, and now \$30 to \$40 per room in Brooklyn. Well, we can't argue all day about this. We'll let it go that our builders

are really generous cusses and will average it up at \$20 per room per month. This makes \$240 per room per year. Since there are 130 rooms, arithmetic solves the gross income as \$31,200.

Deducting from the amount of the gross income \$31,200, the carrying expense, \$12,000 (item 8, table 2), we obtain for the actual builder's net income the sum of \$19,200 per year, on an actual cash investment of \$35,000. (item 14, table 1.)

Call it 50 per cent a year. We want to be extremely generous, too.

Well, you would be satisfied with that, wouldn't you? So would we. But there are ways of still further reducing the investment.

TABLE 3

Reducing Investment in Speculator's 75-Footer

(1) The builder exacts two months' security for his leased apartments, which makes about	\$ 5,000
(2) He gets credit accommodation from his contractors of about	15,000
(3) He can take a second mortgage, for which he will pay at the rate of 16 per cent, or	15,000
(4) Total	\$35,000

Why, you exclaim, this leaves him with no investment at all, the bloody robber. Hold back, kind reader, be not so uncharitable. Don't forget he has worked hard at this operation. It has taken six or eight months of his time, he has fought tooth and nail with his contractors, city inspectors, labor delegates, union strikes, bad weather, etc., and besides, after paying the carrying charges on the second mortgage and the sum due contractors, his net income is reduced to about \$15,000.

Well, here you come back, anybody would be willing to do that if he could make fifteen thousand clean on nothing. Well, maybe he could, if he knew how. Does it require an able architect? Yes, but you know that the woods are full of them.

Now, here, you asseverate, you've got to develop this

further. This ought to encourage co-operative building. How would that go under this scheme?

Well, now that we are in for it, we are going to answer that, too.

What is that prevents everyone from jumping into this game? First, you must buy your land, which means about \$10,000 actual cash investment. Then, you have to finance your building until your building loan payments start, usually at roof enclosure, meaning another \$20,000. Yes, you answer, there are banks. Don't they help? They do. Then, the builder doesn't need so much money, after all. Yes, that's true, but you forget it took him a long time to get his knowledge and you must pay for it. Well, you answer, it's paying a pretty stiff price.

Thirty-eight conspiring, perspiring co-operators get together and they sit down with our professional friend mentioned a while back and figure:

TABLE 4

Building Cost for Co-operators of Speculator's 75-Footer

(1) Building cost (item 6, table 1)	\$105,000
(2) Land cost (item 7, table 1)	20,000
(3) Professional services for construction	5,000
(4) Total	\$130,000
(5) Less first mortgage of	\$ 90,000
(6) Leaving actual cash investment of	\$ 40,000
(7) Less credit extended by contractors of	15,000
(8) Leaving actual cash required of	\$ 25,000

Since there are 130 rentable rooms in the house, this means that the co-operators would have to dig up about \$200 per room, which you obtain by dividing item 8 by 130 rooms. In other words, a three-room renter would pony up \$600 and the four-room aristocrat would pony up \$800.

Turning back to Table 2, carrying expenses, we figure \$12,000 divided by 130 rentable rooms means about \$96 per room per year, or about \$8 per room per month.

Whew! This is awful. You mean, you say, that three-room magnates with \$600 could enjoy an apartment for \$24 monthly rental? Say, let's go after those builder robbers. Hold me back. Great Jehosaphat! This is enough to make one's blood boil. What about all those housing commissions and the Mayor's Committee, the Unemployment Conference and what not?

Well! Thank Heaven! There's a catch in it somewhere; these things cannot be true. Surely, they know what's in the game. Of course, the reader has a feeling that all this is crazy. He'll have to get some expert guy to dope out what's wrong with it. It sounds incredible. Who is this nut who comes out with such "outré" thoughts? No human being ought to upset us like this. It's torture, that's what. Kill the guy, whoever he is.

Wait, reader, wait! There's more. You have a tender heart. You're not a builder. You have feelings. Consider the real poor man who hasn't got the six hundred bucks and who can't find other perspirators.

Well, the city can take him under its wing. How do you mean? We mean that since the taxes are exempted, the exempted taxes can be funded in this wise:

We believe that self-supporting city ventures, like docks, are built by city bonds bearing a reasonable rate of interest. The income from the docks or other improvements carries the bonds, so that there is no burden on the taxpayers. The improvements are self-supporting.

Now, to fund the taxes, let the city stop this humbug of remitting the taxes, which remission helps no one but the builder. The tenant isn't getting it, and the new accommodations only serve the natural increase of the city's population. It is estimated that the city grows at the rate of 120,000 per year. The old tenants of the city get no benefit, in effect, of the increase in the number of apartments, estimated as 26,000 for 1922. Now, this is all very interesting about subsidizing the "poor" builder, who must have help on account of the high cost of building. But what about the old city tenants? They have to pay additional taxes for all the new hicks that come to New York. The addition of 120,000 people per year means more

money required for street cleaning, garbage removal, schooling, police and fire protection, extension of water mains, and sewers, and so on in all the city departments. The load keeps on piling up, and now they intend to exempt the tax exemption.

Let's get back, for Heaven's sake, to funding. Let the co-operators pay to the city in lieu of remitted taxes, the \$4,500 which it otherwise loses (3 per cent on \$150,000, item 11, table 1), and if the city feels beneficent, let it arrange to issue Home Building Bonds, like Liberty Bonds, against the income from the taxes. Since the city could easily dispose of 4 per cent bonds for this purpose, the remitted tax amount of \$4,500 would pay the interest on \$112,500 worth of bonds (that is, 25 times \$4,500.)

Let's hope all this is true. If it isn't possible, let the powers that be make it possible. They can do that if the scheme is not improbable of execution, if it isn't frenzied finance, if it isn't defying the laws of monetary gravity. We're willing to let it go right here that the author is loose in his coco. In Chicagoese, he's coo-coo. Send for the ambulance and away with him to the psychopathic ward.

Well, anyway, let's imagine that this guy has been returned to his home on the ground that, while the doctors suspect that his brain leaks, they couldn't get any court to believe that they were warranted in holding him. Besides, no bonehead jury sitting in judgment would allow the powers to hold incarcerated any nut who got up a rigamarole like this. They'd probably decide that, although he's loco, at any rate he's harmless and self-supporting. And what's the use of spending good, hard-earned taxpayers' money on a harmless nut? So he returns home, takes his trusty pen in hand and continues:

Let's see, where were we at. Oh, yes! The city has furnished to the perspirators bonds to the tune of \$112,500, and each perspirator has to dig up \$135 per room to make up the difference. Then the perspirator gets his accountant-bookkeeper to figure out that this method gives him the benefit of \$900 saved in interest, (See item 1, table 2), making a further reduction of about fifty cents per room per month, bringing the carrying charge as rent down to

about \$7.50 per room per month, or \$22.50 for a first-class three-room apartment.

Well, now when we get down so far, we find that Mr. Perspirator will find enough in his jeans to pay up for all the fancy items which the generous builder never figures, because he doesn't hold the building long enough. He's a wise bird, this builder guy. He capitalizes his \$15,000 net-profit-on-nothing-operation, and gets some buyer to take the building off his hands for a very modest sum. He sells you a clean \$15,000 a year guaranteed by two-year leases of reputable, responsible tenants, who are further anchored into his building by two months' cash security for—well, be generous, say \$50,000, and thereafter other speculator harpies resell at a further profit. And if the builder builds only two buildings a year, he tops President Harding by \$25,000—rides around in at least three cars, buys his wife a lot of jewelry, gets sporty, and keeps a friend on the side, buys himself a private house, sends his children to the finest schools and colleges, gives them each their own car and retinue of servants, pays little income taxes, and otherwise conducts himself like a lord or king. Speak not harshly to him. He has much on his mind. He's figuring out that he must take very good care of himself now, for he's hit a good graft, and the longer he lives the more he'll make, because the city is a long ways from catching up. By the way, too, he's thinking that the next time he builds he'll start, say, four at once; no, he'll risk it. He'll make one good haul before the burg is overbuilt, he's going to start twenty at once. He'll make a million at a crack. He'll make more because by means of such wholesale production he'll cut down on everything. He'll show the town. He's going to get an inside price on everything. And he's going to start with that damned architect of his. Confound that idiot, he's always grumbling for more money, hollering that it's his experience and brains that's making the money for him. Why, do you know, the last operation he had a hell of a time to get the poor goop to take that job for \$500 with inspection service, too, and that was a liberal figure also. Why, years ago, he only paid \$250 for a 75-footer. Well, he'll fix him. He's not going to get \$500 a building out of the next twenty building operations. He'll

give him, say, \$100 a building—\$2,000—and then he'll be in \$8,000. Let's see, that will buy his butler a car. The poor fellow looks peaked, needs air and he can't lose his butler; no, he couldn't, because the butler gives his home that distinction that puts him right in line like the top-notchers. Well, if this game continues for another three years, he'll pull out with enough so that he can live in Italy with that third floor back tenant that attracts him so much, damn her. He always arranges to call for her rent (which, by the way, she doesn't pay), and, damn it, she gives him a thrill that strengthens him so that he feels like taking every damned tenant in the city by the throat and choking him to death. Damn those tenants, anyway. Aren't they always yammering at him, setting their lawyers at him, dragging him to court about hot water and steam heat and repairs. And now they've got the judges on their side, too. Mind you, young fellows, whose client he used to be. Fellows that he helped, too. If it hadn't been for him, they could never have been judges. Because, hadn't he suggested to his excavating contractor, a powerful district leader, that so-and-so would be a good judge and stick to the crowd? Well, he knew what was the matter; these judges were angling for votes when their terms were up. Oh, yes; he knew! They were out for themselves all the time. Well, that was all right, after all. He'll beat this out-for-yourself game. Give him a couple of years and he'll tell all of them to go to hell. Just a couple of years. Gee! This will never do, his heart is beginning again. He'll never make it; if this keeps up. Oh, God! he cries, just give me a couple of years. I'll be in with the best of them. And then won't they marvel at me! Why, damn it, think of it! A poor immigrant, knowing nothing, landed without a penny, worked night and day, saved a little money, got his start as a clothing contractor, then as a factor, worked up a big business, saw things going to the bad, got worried. What happened then? Let's see. Yes, one of those bankruptcy lawyers smelled out in some way that he was going on the rocks. Gee, that guy was a clever one. True, he got a big haul out of it, but he worked it beautifully. Why, damn it, do you know that he went through without a scratch, and there he was high and dry. And, don't you

for get it, he didn't have to stay idle at all. Some of his successful friends told him there was good graft in the building game, and he could use his New Jersey bank accounts for that purpose. Well, it wasn't an easy game; they nearly swamped him at that, but that clever architect pulled him through just in time. If only that fellow realized how good he was. If he only had a son like that. Why, that boy would have been just the pie for him. Think of it! How he had labored with his son. He beat him, threatened to disinherit him, tried to stop his drinking and other bad habits. God in heaven, it even came to him that his own son slyly visited that no-pay tenant of his. Well, if he ever catches him there, he'll show him, he'll break every bone in his body. The idea, to break in on his graft, his own son, too. It was maddening. By heavens, he's getting all worked up again. He must stop the car in the park. He must have absolute quiet till his heart quiets again. There, it's stopping. What was he thinking of? Yes, they want him to make a speech before the Builders' Association dinner. Yes, that's good. He'll have his lawyer write his speech for him. He'll tell them the story of his life, not the bad parts, you understand, but the good parts, and what he doesn't want to remember, he won't put in. He knows the game. He'll show them that honesty always pays; that his success is due to the fact that he can give the people what they want at the minimum cost to them and little profit to him; that he stood for good construction first, last and all the time; that he had no sympathy with any builder who tried to bribe inspectors and beat the law; that he believed in and wanted all the laws rigorously enforced, otherwise, any ignoramus could become a builder. Why, gentlemen, building is one of the noblest arts and has a very complicated technique (that was a good word—he got it from his architect, who was always blowing about technique) that it required men of extraordinary ability to cope with the building game. That if they let every Tom, Dick and Harry into the game, we'd have buildings falling down every day, killing, Lord knows, how many lives. Yes, he would even go further. In the public interest solely, and he didn't care whether he hit his friends or not, now in the presence of the Governor, the Mayor, the Borough Pres-

ident, the Controller, the President of the Board of Aldermen, the Superintendent of Buildings and the Tenement House Commissioner, he proposed, mind you, in the public interest, that the Board of Aldermen or the State Legislature or the Congress of the United States, pass an ordinance, act, or law, licensing builders. (Here he would pause for cheers.) It was high time that the building industry was restricted to those who could qualify by years of experience, and those who couldn't show at least ten years active experience should not be allowed to act as builders, but should be given a separate license enabling them to act as building supervisors or superintendents for qualified builders. This would protect the public. In doing this he felt that his life would not have been lived in vain, if he could only add one tiny mite to the common good.

Then he would sit down. He didn't want to hog the floor, because the chairman might want to read a message from Herbert Hoover on eliminating waste in the building industry. He had ideas on that subject, too, but he'd give it to them at some other occasion.

Well, we'll let the builder rave on. He's now past saving. He's got an exaggerated ego and thinks he's making speeches all the time. That's what happens to these successful builders. As soon as they succeed in a couple of operations, they imagine it's a gift, from God, too. That Divine Providence arranged all this; they were picked out for this important job because they had the brains. And, after all, brains are really the only thing that counts. Yes, brains and character, too. J. P. Morgan said character was everything, but, after all, even the reader knows that brains are something. Why, if the reader had brains he could now solve the whole situation.

Let's see. The reader has reached the point where he, as a poor tenant, gets into a nice three-room and bath apartment, city bonded, on an investment of only \$400 (he'll hock his wife's jewelry for that), at a monthly rent of only \$22.50, and now he can leave his mother-in-law to her fate (she talks too much, anyway), and he'll let his sisters-in-law and brothers-in-law keep her pleasant company. Good Heavens, he couldn't live a minute longer with that crowd, now that he's got the combi-

nation. He is going right down to the Mayor, Red Mike, some driver called him, and ask him what's the idea of waiting. You're the guy who pulled the chestnuts out of the Traction Bund, you're the boy that the people showed they liked. He wasn't a high-brow, either, but he was the kind of a guy that knew his arithmetic. Well, if that Mayor had to live with a mother-in-law that yammered all the time and insisted on giving him her latest discoveries which were stale news all the time, he'd know that the sooner he got the reader out of the stench, the better; that if he wanted to copper-rivet the presidency, here was his grand opportunity. The reader wouldn't say a word about where the dope came from, but he'd be sure that the crazy nut who doped this out could be yegged out of the credit for the scheme, and there you were. Politicians knew how to do those things.

Say, Mayor, says the reader, by the way, coming to think it over, I hocked my wife's jewelry last year to pay for her operation, and you'll have to dope it out so that I can get into this apartment without ponying up \$400 bucks. Couldn't you issue enough bonds to pay for the whole damn thing, and couldn't you even add enough additional rent to pay for amortization and real taxes? With low rent like that, we wouldn't mind what those charges amounted to. They couldn't swamp us, anyhow. Which ever way it blew, we'd be high and dry, and Mr. Mayor, you're the boy.

Say, Mayor, continues the reader, excitedly, by the way, it just occurred to me. You know the city will have to buy the land now. Well, we know those land-owning guys; when it comes to assessed valuation, their lots are not worth blasting powder, but when the city has to buy, why, no price is too high. Well, couldn't you fix it up this way? I don't know how this idea got into my dome, but couldn't you announce that the city intended to buy land at the assessed valuation, and that any owner who felt that that price was too low would be given an opportunity to raise the assessed valuation to whatever he thought the city ought to pay for his land. Say, wouldn't that bring the taxes down? My, those babies would be caught like rats in a trap.

Say, Mayor, honest now, do it any way you want, but for the love of Mike, get busy.

Say, Mayor, if you think that this scheme is going to reduce wages, stop it. Don't let any one touch it at that rate. It will be a gold brick. I guess I'll stick to my mother-in-law, anyway. She's not such a bad one, after all. She minds the baby when wifey and I go to the movies.

So, dear, suffering reader, does not all the foregoing prove conclusively that housing is a municipal function, like water supply, to be supplied at cost.

And if housing were a municipal function, how do you think labor would react? Don't you suppose that the working man, working on his own house for cheaper rent, would then give us the best effort that was in him? If he didn't, we would set over him, not the familiar type of lackadaisical building inspector, but the poor women of that East Side block that the Housing Commission of New York gave up as an unsolved problem.

And don't you think that if rent took a sudden drop like that, that a lot of other troubles would be solved, and that nothing would have to be said about reducing wages, because every one would behave himself, and live like a human being ought to live.

HOW TO REDUCE RENTS

Part II

THE JOKER
in the Report of the
Housing Committee

By
"INVALID"

FIRST EDITION

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Price 50 Cents

THE JOKER

in the Report of the
Housing Committee

Everybody knows what rent is. At present it is money paid in large amounts giving you a license to live, not as a human being should live, but as an animal, herded in with a lot of other animals.

Now, when one sets out to write about rent, he must be handy with figures, for rent is usually expressed in arithmetical symbols, sometimes called Arabian numerals. They are "Arabian" all right, because with figures you can construct tales rivaling the Arabian Nights.

Every once so often, an old tale crops up. Once it was ascribed to Mark Twain; and recently the "Times" handed it to Douglas Jerrold. Its substance is like this: "There are three kinds of lies: lies, that is, plain lies, damned lies and—statistics." Now, everyone knows that figures don't lie, but liars figure. The average man usually shies at anything containing figures. They seem to involve too much brain work, but you take the Ziegfeld Follies figures, why that is another matter! Those figures are entitled to close examination. You are well and comfortably seated, the curtain has risen, when you receive a sudden shock. You notice something is the matter with the columns of that third figure from the left hand end; particularly the lower part of its left column. You rudely grasp those strong binoculars from the bald headed man at your right, take one good peek, hand the glasses back, and lean back, saying: "Well, I thought so." You had guessed right, for you suspected that the calf-symmetrical on the leg in question had shifted, thus making the whole ballet look ridiculous. Still, at that, figures must be treated with respect.

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Academy Press, 112 Fourth Ave., New York City

As long as a child writes noughts like 000,000,000—it is toying with its pencil in a proper manner; just let the pencil slip into \$1,000,000,000, and you hastily grab the pencil away, because that child is fooling with dynamite. Only statisticians have the right to pencil such big figures. And once a statistician writes it, it must be so. Everyone takes it on faith.

Recently, the writer was examining casually, the report of the Housing Committee of the Reconstruction Commission of the State of New York, dated March 26, 1920. More particularly he was halted on pages 49 and 50 of the report, which was a comparison between the "Thomas Plan" (for improved housing) and the speculators' plan on the same sized lot.

Now "Thomas" is an able, economic housing expert. There is no question about it. He is no merry Andrew, nor is he a jay; neither is he a doubting Thomas. When he gives you figures, you know that the whole State of New York, including all its brains, can stand behind those figures. They are even willing to fall with or for those figures.

We quote from pages 49 and 50:

"COST

"House built on Thomas plan on a plot 100 x 100 shows as follows:

(1) Total cubic feet	241,000	
(2) Cost per cubic foot	30c	
		\$72,500
(3) Cost of land		10,000
(4) Total		\$82,500

"House built on typical (speculators') plan on a lot 100 x 100 shows as follows:

(5) Total cubic feet	448,000	
(6) Cost per cubic foot	30c	
		\$134,500
(7) Cost of land		10,000
(8) Total		\$144,500
(9) Thomas Plan, 108 rooms, at \$9 per room per month		\$11,664

RENTS

(10) Cost of Operation, estimated to equal 47% of the total income	5,475
(11) Leaving a net income (which is $7\frac{1}{2}\%$ on the total cost	\$6,189
(12) Ordinary Plan (speculators') 176 rooms, at \$9 per room, per month	\$19,000
(13) Cost of operation, estimated to equal 47% of the total income	8,900
(14) Leaving net income (which is 6.9% on the total cost	10,100
(15) "In computing the cost of operation, figures were furnished by various of the larger builders and owners of the moderate priced apartments, showing a cost operation of between 45 per cent and 50 per cent of the total income on the properties."	

The figures in parenthesis were added by the writer. Otherwise, you have it before you, word for word and figure for figure.

The first thought that struck us was, "Is it possible that in this great, wide city of ours, there are housing experts who have forgotten that practically no building operation is financed without the aid of a first mortgage, and that the builder always figures mortgage interest as part of the carrying expenses?"

The author, out of his own experience, then tried to allocate the carrying expenses called "cost of operation" for item 10, \$5,475. The first mortgage granted in a building costing \$82,500 (item 4) would be about 60 per cent of the amount, or say, \$50,000.

EXPENSES (Item 10)

(16) Interest on first mortgage of \$50,000 @ 6%...	\$3,000
(17) Water taxes, 30 families @ \$14 each.....	420
(18) Janitor	600
(19) Coal	1,000

(20) Insurance	355
(21) Night Lighting	100

Total	<u>\$5,475</u>
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(Going further, the writer figured:

EXPENSES (Item 13)

(21) Interest on 1st mortgage, \$100,000, @ 6%	\$6,000
(21) Water Taxes, 50 families, @ \$14.....	700
(21) Janitor	600
(21) Coal	1,500
(21) Insurance	400
(21) Night Lighting	100

(23) Total	<u>\$9,300</u>
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The first mortgage of \$100,000 (item 22) is based on 60% of the total under item 8, \$144,500.

Comparing the cost of operation, item 13, \$8,900 with item 28 \$9,300, we find that we are \$400 short.

Evidently the builders didn't figure the proper percentage.

However, remembering that we have borrowed a first mortgage of \$50,000 on the Thomas Plan, costing \$82,500, it is now clear that the Thomas' builder actually would have invested not more than the difference between the two amounts, or \$32,000.

Now, a net income of \$6,189, item 11, on an investment of \$32,500 means that Thomas builder actually earns about 20 per cent per year.

Figuring in the same manner for the speculator's plan, we find his equity to be \$45,000, and his net income of \$10,100, item 14, means for him a return of about 25 per cent per year.

BUT, the report says that the speculator is actually building tax exempted houses now renting from \$20 to \$25 per room, which means:

(29) Speculator's plan, 176 rooms @ \$20 per room, per month	\$42,240
(30) Less item (13) plus shortage	<u>9,300</u>
(31) Leaving a net return per year of about.....	\$33,000

This means about 73 per cent per year on his \$45,000 investment.

And if he should be so unfortunate as to get \$25 per room, the poor builder speculator simply is compelled to pocket about \$43,000 per year, or about 100 per cent per year on his investment.

Now, what puzzles us is this: We remember from Geo. Ade's "Sultan of Sulu" that the Constitution follows our flag on Mondays, Wednesdays and Fridays only, which we thought was a brilliant discovery. But since when has genius discovered that operating expenses must follow by percentages on the income.

In other words, if our kind landlords jump our rents 100 per cent, does it mean that they immediately throw away clean profit by doubling their expenses. We would like to ask their janitors.

Now, it strikes us that there is a nut loose somewhere. If this is the best that the Housing Committee could have done for us, then the only conclusion is that the author is crazy.

HOW TO REDUCE RENTS

Part III
Rent and Taxes

By
"INVALID"

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RENT AND TAXES

Those of us who recall our Roman history, even dimly, will remember that the Romans used to farm out their taxes, and the system worked so profitably for all, so to speak, in the game, that there existed side by side the highest forms of luxury for the rich tax gatherers and the most abject forms of poverty and slavery for the poor. Everyone had to give up his share of the taxes, and Rome treated him royally for it. It gave him the Colosseum, and throwing Christians to the lions. That sort of thing pacified the poor because, in that way, they got the same kind of a thrill that the opulent got. It was thrilling to the maximum. Caesar, after conquering foreign territory, immediately set up tax-gathering machinery. The system worked well until it smashed up.

In the Middle Ages, feudalism was the favorite institution, and no matter by what name you call it, that system forced from the worker what he had for the noble tax-gatherers.

Taxes are paid either in money, or in kind, or in labor. Either form is convertible into the other, and names mean nothing. If a worker was enslaved for the fruit of his toil, it was simply a form of taxation. Only it was a preferential tax. The poorer the slave was, the more he gave.

Now, the worker's expenditure of energy gives him money. If he uses Time as an element in his work, that is, works faster, he makes more money. If he injects ideas, he makes still more. Labor is worth money; time is money; and ideas are worth money. To our mind, these are the only three forms of wealth. He who neither toils nor spins, does not earn.

Land converts energy into products exchangeable for money. If the land lies idle, it earns naught. Even wild wheat and wild rice must be gathered. There can be no produce without the expenditure of energy in some form or

o her. Machines are simply a time-saving device like skill. They make wealth because they multiply the worker's energy. Ideas, in the form of inventions, also act to produce machines for time saving, or to add convenience or comfort for some part of mankind. Pleasure then becomes the realization of our desires for convenience or comfort. Convenience saves time for us and really acts to save our energy, which is worth money. Comfort is the basis, as satisfaction, of all esthetic values in our lives, and that is what mankind is striving for; the realization of its desires.

If one puts ideas into land, irrespective of any kind of toil, he will make money. He gambles with his idea, and takes a chance of either making it now or in the future. He becomes a speculator. In order to put ideas into land, he must become a landowner. In order to do that, he exchanges the fruits of his physical or mental toil for land. Now, the ink is hardly dry on the contract before that individual has changed his status from tax payer to tax gatherer or collector. If he doesn't improve the land by physical means, he pays the taxes out of his own toil. If he is astute, he improves the land in such a way that the toil of others pays the taxes, and he keeps a share for himself as commission. If he is very astute, he keeps a big share. He becomes a profiteer. The biggest profiteers in land improvement are right here in New York, and the world has never seen such hogs.

They defend their big commissions in the most foolish ways. Anyone who ever attended hearings on the city budget before the Board of Estimate would know what that statement meant. The real estate owners' representatives are always there on the job, ready to put up the worst kind of a howl when money is to be spent for social betterment or for education. From the way they spoke you would imagine that the small group of real estate owners in New York City were killing themselves just to provide money to run the government for the rest of the canaille.

Early in the history of New York, the tax-payer was the owner of his little private home. The city budget and tax rate were vital matters to him, and the local districts organized themselves into taxpayers' organizations, whose influence upon city affairs was powerful. But that was long ago; the small

single family house owning tax payer has almost disappeared. The multi-family house changed the owner's status from taxpayer to tax-gatherer; the real tax payer is now the tenant. The real estate owner does not seem to realize that a change has occurred. To increase their power, the real estate owners' organizations are padded with small house owners, and they seem to make a formidable number before the Board of Estimate. Actually, the large realty interests, and their satellites, the brokers, are in control.

So at hearings before the Board of Estimate they object to night schools and to City and Hunter Colleges as unnecessary extravagances.

"Look at us," they say. "We didn't need such aids to make our way in the world. We are self-made rich men. And any one who has the stuff in him can reach our estate in the same hardworking manner. One makes his own opportunities, and the city has no right to spend *our* money to rob the poor of the opportunity to gain anything by hard work. The poor need no assistance. They can always earn money by working for it. There's plenty of work to be done if they will only grab the opportunities which we give them. There's no use spoiling the poor man by subsidy. The fact is that people are poor because they are lazy. Why, Mr. Mayor, the Street Cleaning Commissioner reports that in spite of the great unemployment, he cannot get enough men to clean the snow off the streets. There's work for them. But they won't do honest work any more. The city is spoiling them with their socialistic schemes. The city listens to every crack-brained socialist that comes here with every sort of scheme to bust into the city treasury, and despite our best efforts, they succeed. You gentlemen of the Board of Estimate know better. You are real estate owners yourselves, but you are angling for votes. Think of it, spending *our* money for free milk for poor babies. That's what comes of all this unrestricted immigration. The immigrant is too prolific anyway. And every new baby means another quart of free milk daily, 365 quarts a year, with *our* money. They are even proposing to give each school child a quart of milk daily. That means that we are to furnish free 1,000,000 quarts of milk a day, 365,000,000 quarts a year. Under city management the milk,

with the machinery for distribution (teachers and others grafting) would cost twenty cents a quart. It would cost us \$75,000,000 a year for milk alone. That figure is staggering. There isn't so much milk in the country. It would leave no milk for grown-ups. We real estate owners would starve for the want of milk. The proposition is impossible. It would need 100,000 cows for the children alone. There aren't so many cows in the country. Each cow needs four acres of pasturage—that means 4,000,000 acres of pasture. There isn't so much land in the country. The cows would break all fences and destroy the vegetable gardens; they'd eat the apples off the trees; they'd eat up all the wheat and corn. We'd all starve to death. For Heaven's sake, Mr. Mayor and Honorable Board, stop fooling with free milk. If this keeps on, we real estate owners will surrender our real estate to the city. Then we won't get any taxes at all, because there's too much graft in city collection, and we are really the more efficient."

And so it goes. Rent is never mentioned. To them it is a mere nuisance, and they would just as lief that the city collected it and paid them just interest on their invested capital.

Nor is this all. They use the same kind of arguments at Albany. The threats they used at the hearings of the Workmen's Compensation Act, the Widows' Compensation Act, the Labor Law, etc., were laughable in the extreme. Only no one laughed because Albany is far away and it takes money and Time to get there.

Every real estate owner is a gold miner. He expects to strike it rich on his land, some time. And, like the miser, if he knows his business, he does strike it rich quickly. Others get rich by accident. Others, like politicians, get advance information, and with inside tips, they too strike it rich.

But, whichever way it works, they need one factor to make their land yield gold. They need people, either to live on their real estate or to walk by it. In either case, they strike rich pay dirt. Chain store corporations count the number of people passing the stores they intend to occupy, and every passerby has a potential buying power, convertible into profit. Working back from the intended profit, they can tell to a cent, how much either to pay for,

or rent, the real estate. They know their business, and have it figured out scientifically.

The speculative builder knows it, too, and few others. There appears to be no one in New York that is "in on the know," but those directly interested, and their interest is too vital for them to divulge the secret. They don't advertise the profits of real estate, but they advertise its hazards and its dangers and the risk. And we calmly accept these things as true and prepare ourselves for the next rent raise. We can't give him enough. He not only gets legal permission to raise the rent, but the city is now actually subsidizing him, in addition, by remitting taxes for a number of years. And that remission is supposed to be responsible for their attempt to add to the housing shortage. And still the additional provision don't begin to solve the housing shortage.

Why aren't they building still more? The fact is that the graft is too good, and they have become afraid. They fear that its very goodness leaves a possibility for its exposure, and that would mean collapse. So they hold back, and labor hating to work for such profiteers, profiteers in turn, sabotages, and slacks on the job. The expectation is that those who get through will get through; and the others will get stuck. There's the risk.

The most intensive kind of improvement on real estate in New York is building an apartment house thereon, with stores on the ground floor and doctor's and dentist's offices elsewhere. That collars all the graft. The zoning law prevents stores except on certain streets. So that lots having store possibilities have a higher value. Some store plots have such value that utilizing the whole plot for stores makes the biggest return, and then they call that sort of improvement, "taxpayer." This would lead you to think that the purpose of such an improvement was merely to pay the actual taxes on the land, just so that the builder could hold it until something happened to make it usable for some better purpose. And you believe it.

But the fact is that there is no better purpose, except in degree. When the number of people passing such taxpayer daily reaches a certain point, a multi-story store

goes up, or a theater or an office building, or a hotel. These utilize the land to its highest possibilities, because every passerby gives up to that building as sure as Fate. And that's the whole secret.

Study the speculative builder, and you will note that these are his guide posts. East Side lots are worth from six to ten times the value of lots in the Bronx. East Side rooms average \$3.50 per month. Bronx rooms now average \$2.00 per month. Why the difference? Simply that the congestion is so great on the East Side, that stores rent for more. And store rents more than make up the difference. The Housing Commission of New York were never told by its real estate owning members of this peculiar state of affairs, and they gave up the East Side as an unsolved problem, and because they didn't understand plain arithmetic they left the whole housing problem to the hands of Fate, to work out in time, because it was more than they could solve. It was more than any human could solve. The poor we must always have with us, and suffering and poverty are Providential measures, and no one had any right to fool with Providence.

To fill out the report, they gassed about Single Tax. It wasn't so long ago when that whole subject was investigated for New York City by Professor Seligman, of Columbia, and the whole project given up as being too experimental and doubtful an expedient for New York. Now, why revive something that's dead? No, these Single Tax lounge lizards must mix in everywhere. And there it is in the report, but the Lord only knows how relevant the subject was. Maybe it was just to advertise a friend who couldn't rid himself of his mania.

We are being lulled by a lot of seemingly feverish building activity, especially in the Bronx, and everyone hopes, knowing that the builder is willing to come to the front, given tax exemption and a few whips for labor, for rents to come down.

How can they come down? We need 175,000 new apartments in New York right now. 1922 is expected to give us 26,000 new apartments. In the meantime, 120,000 new people will come to New York next year, requiring at

least that number of new apartments. At that rate—and still there is the East Side to be remedied.

But we are not going to get 26,000 new apartments next year. The builders are trying to give us foundations for 26,000 apartments by April 1, 1922. So that they can sit back while taking advantage of the tax exemption law. Now, it is a physical impossibility to get enough stone masons at \$17 per day, with helpers at \$12 per day, working as they do now, to provide such projected foundations. Because winter may set in hard, and when it loosens up, stone masons will get \$30 per day and do less work. The builders are hoping that in this way exemption will be continued. Then they'll stop all work till labor comes to its senses and materials come down, while rents go up 25 per cent each year. If this isn't heading for a crash, we miss our guess. The mortgagors sense it, because the mortgage amounts run about twice the net annual return, a ridiculous proportion for the kind of security involved.

But store taxpayers are safe. Even if people live in the streets, they must buy something in stores, enough, anyway, to pay the rent. So the wise builder just speculates in land for quick turnovers now, or builds stores which can be put up quickly and as quickly disposed of. All the others are taking a greater risk. That explains all the real estate activity which you notice in the papers.

Let's put some of these men under the microscope. One is Mr. C. He used to be a butcher long ago. He came here from Russia on reports that there was gold in the streets. He found it piled up in bricks, but lining the streets. Only these gold bricks have a habit of just vomiting other gold bricks. They act like radium, giving off gold all the time. It is he who appears before the Board of Assessment with his lawyer to plead for reduction of taxes, giving depreciation as an excuse. He insists that self-propagating gold bricks act like radium to reduce their volume. And he gets away with it. He produces figures to show that his repair bills increase yearly, and that proves depreciation of value.

But Mr. C., besides digging gold out of New York with his fine pick axe, works to secure more gold. What for, even

ne doesn't know. He is a miser and skinflint, a loan shark, a note shaver, and a menace to unsuspecting, hard-working individuals. He induces men of small means to enter the building game, advancing the lot and building loan, and if the inexperienced one isn't properly advised, he goes on the rocks and Mr. C. forecloses, and the adventurer loses his money and time. Or, when building himself, he lends a helping hand to some mechanic striving to start in as a boss for himself, and the same thing happens, for the mechanic has handed over to Mr. C. all his own and borrowed money for experience in figuring costs; in order to learn accounting. And so he pockets what too, and saves his conscience by promising to roof the synagogue when they get up that high, and when they get up that high, he backs out because he meant the roof of the complete building, not a temporary roof over the basement. He, too, is a tenant, but he renewed his lease five years ago for ten years, and he's in soft there also. And so he goes. He found the magic wand, the alchemic formula, and he rides high.

He is the bank's most prized account and enjoys unlimited credit. The bank wants people like that. They are the safest kind of people to whom to lend money. They have foresight and collect their debts without heart. No bank will do business with a man who is known to be humane to his debtors. He is unsafe. Business knows no pity. But Mr. C. is not the only one.

Take Mr. V. His estate is managed for him. Long ago, some one in the fur business exercised foresight, worked some other skin games and left to V. vast real estate holdings. V. lives simply, having married a friend of his youth, fought gladly for his country, even gave up his yacht for the purpose, and while he was away, his overseers, without heart, raised rents in all his properties, and they are still raising them. And they are doing a tremendous real estate business, and making money for him, hand over fist. Does V. know anything about spending it? Has he shown exceptional ability to handle his fortune intelligently? Isn't it being handled for him? True, he doesn't dissipate. Neither do a lot of poor people; but V. gets credit for being a credit to society. He is all that a millionaire should be. True, some of his money is

being put to unproductive uses, like large estates, a yacht, etc., but V. doesn't know it, because he thinks that as long as he employs labor, he's spending money wisely. He thinks that it has been ordained that way, and for all he cares, he is content to have his lawful successors continue to hold a mortgage on the happiness of ever so many thousands of people for all eternity, simply because his great grandfather risked some skins.

But with all the tutoring that has been pumped into him, V. is really simple. People do bunco him in spite of all the protection he gets, and he is imposed upon. He contributed to an architectural competition for the improvement of an East Side block which, on the face of the program alone, indicated, and it did prove, a dud. (Page 34 of report).

And further, the Trustees of the Phelps-Stokes Fund have been led into a worse green goods game, which will result in another dud. They are going to advance money for model workingmen's homes, which no self-respecting workman would enter except under severest compulsion. They think that that is the sort of thing that he wants. If they had studied what the speculative builder was supplying in housing, they would have discovered what the worker wanted. But the high-toned experts thought that it was beneath their dignity to soil their fingers to investigate such unintelligent work as is exhibited by the products of the speculative builder. But the builder was wiser than they. He marched into the millionaire's home, took ideas from him and tried to give the workers some of the luxuries enjoyed by the rich. And the worker moved into real comfortable apartments for the first time in the history of his life, and now he likes it so well that he is willing to pay even more than \$25 per room for comfort, even crowded comfort.

In the East Side block competition program, on the last page, they furnished figures that the \$3.50 rooms were tenanted by skilled labor for the most part, clothing workers. Now, these people enjoy fair wages. And there are at least three workers to each apartment. Each apartment enjoyed at least \$100 a week in wages. Well, these people don't spend the money on rent, but they buy the equivalents of poor comfort in the East Side stores, spending all they make, and

still they don't get comfort. They are crying aloud, "Give us even \$25 rooms," but no one listens.

East Side rooms don't pay enough for taxes. It is the stores that pay the taxes. If the people moved away, stores couldn't earn as much and values would drop. This actually happened seven years ago. East Side property only regained apparent prosperity because people had to occupy apartments that "even a rat wouldn't live in," as the report says. So as long as the people are there, stores will pay.

And what the speculative builder does know is this; he puts in practically no investment, pays out about 25% of his gross income for carrying charges, enjoys free taxes, and pockets the difference and no one yells, "Stop those robbers."

The solution lies in the fact that housing is a municipal function, like water supply, to be supplied at cost, and that stores can be made to take care of all the taxes in the easiest manner. Profits of use should determine the amount of the taxes, which means simply another form of income tax. Only in this way will real estate owners be restricted to fair profits, and the worker to fair rents.

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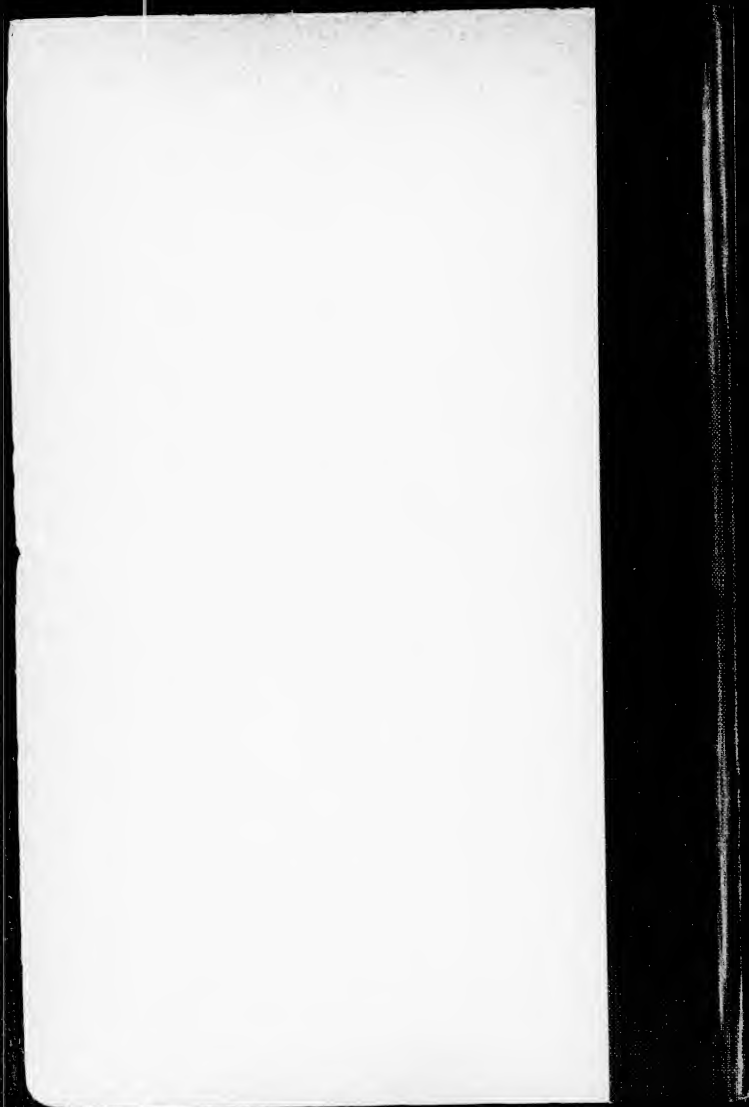
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